

## VARIATIONS IN COOPERATIVE STRUCTURE

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There are many variations in the structure and/or organization of cooperatives. Cooperatives are commonly organized and structured to meet a need of people; therefore, the resulting cooperative often is structured or organized in a manner that the people who are building the structure believe will best fit their need. The cooperative structures are also influenced by resources available at the time of organization.

The variations in cooperative structure reflect peoples served, areas served, services or marketing functions performed, method of financing, types of membership and the membership itself.

Recognizing the scope of variation in cooperative structures and the limited time available for this presentation, the author elects to select only a few of the more common variations in cooperative structure.

The classification of cooperatives by their variations in structure can become somewhat complicated since there is considerable overlapping in the various aspects of their structure.

## TYPE OF CHARTER

Cooperatives may vary as to their being incorporated or unincorporated. The author believes that the values of incorporation outweigh the inherent risks of unincorporation and that all business ventures should be

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incorporated. The type of incorporation of cooperatives does vary. Some cooperatives are incorporated as cooperative corporations, other cooperatives are incorporated as corporations not for profit, while other cooperatives are incorporated under statutes for investor corporations but operating as cooperatives. Farm Credit and Federal Savings and Loans are incorporated under Federal Statute while credit unions have state charters. Mutual insurance, and in some states rural electric cooperatives and consumer cooperatives, may be incorporated under special statutes.

#### STOCK AND NON-STOCK (STOCK AND MEMBERSHIP)

This variation reflects the financial structure of the cooperative. In the stock cooperative, membership is evidenced by the ownership of stock which is a part of the cooperative's equity capital. There are different classifications of common stock such as A, B, X and Y. One of these classifications (e.g., common A) being ownership, voting or membership stock. The bylaws and code of regulation will designate within the limits of the state statute under which the cooperative is chartered the numbers of shares of voting shares one member may own. (Kentucky law permits one member to have 49 percent of the controlling votes while most state statutes permit only one vote per member or in some states no more than five percent of the total vote based on volume.)

In a non-stock or membership cooperative, ownership or voting right is evidenced by a membership card or membership certificate. (Ohio law requires that each member shall be issued a membership card and that no member of a membership cooperative may have more than one vote.) Non-stock or membership cooperative may have free and automatic membership or it may have a high cost membership fee with the membership fee becoming the basis of the cooperative's equity capital. Usually the membership

contract is valid as long as the member qualifies for membership (membership qualifications as set forth in the cooperative's corporate papers), however, there are cases where the payment membership fee is required periodically thus renewing the person's membership. There are membership cooperatives where the membership contract is executed by the prospective member selling through the cooperative and his act of endorsing the check received from the cooperative for the products delivered automatically makes him a full-fledged voting member. Some REC's and some mutual insurance companies require a membership fee to start service and a few no longer require a fee for membership.

There are agricultural cooperatives that have a membership fee requirement for members but their financial structure is based on stock.

In its simplest variation, membership cooperatives are those whose ownership or voting rights are evidenced by a membership card while in a stock cooperative, the ownership or voting right is evidenced by the ownership of a share of voting stock.

#### OPEN AND CLOSED MEMBERSHIP

This variation of cooperative structure is possibly the oldest. The Rochdale Pioneers drew upon the successful ideas of earlier cooperatives, thus they required those desiring membership to present themselves, their spouse and a sample of their labor before the leadership of the cooperative who approved new members for the cooperative. Many state statutes require that the boards of directors of agricultural cooperatives certify that the members of the agricultural cooperatives meet the membership requirements as set forth in the statute, articles of incorporation and bylaws.

This variation should not be confused with a more recent variation commonly referred to as "member only" which refers to the allocation

of patronage and IRS Section 598 and will be discussed later.

Limited or closed membership cooperatives in this paper refer to those cooperatives that have limited the number of members or the total volume of business the cooperative will receive. As a rule, non-members are not served. Prospective members may ask to be placed on a waiting list for membership. As pointed out above, REC's, PCA's, BC's, FLB's, savings and loan, credit unions and mutual insurance companies usually serve only members.

The closed membership cooperative often has a contract with the member for all of his business, either marketing, supply or service and a requirement for financing his cooperative.

The closed cooperative has been most popular in service, credit, insurance and marketing and appears to be gaining popularity in other types of cooperatives.

The open membership cooperative accepts anyone that applies for membership and meets the requirements of the cooperative's charter. The truly open membership cooperative will have no requirements that members patronize or finance the cooperatives.

Some state statutes authorizing the incorporation of agricultural cooperatives do have provisions that authorize or in some states may require boards of directors to dismiss from membership persons who have not used their cooperatives for a period of one or two years.

#### MEMBER ONLY

This variation is directly related to the IRS tax classification and refers to those cooperatives that do not qualify under Section 521 or the provisions of Subchapter T. Those "farmers, fruit growers or like associations that qualify under IRS Section 521 must afford equality of

treatment to all patrons" and is not permitted to discriminate between members and non-member patrons in any way.

A member only cooperative does not qualify for IRS treatment under Section 521. This term, "member only," refers to the allocation of patronage refund which is paid only to members. As a rule these members are farmers but in some cases non-farmers are permitted to join as associate members without voting rights and thereby receive patronage refunds on the business they do with the cooperative.

#### FEDERATED AND CENTRALIZED

Probably the most important variation in organizational structures of agricultural cooperatives are federated and centralized.

The federated cooperative is often referred to as a "grass roots" type organization because individual farmers are owners and members of a local cooperative that in turn owns the regional. In a federated system, the farmers' local cooperative joins with other cooperatives to organize and own another cooperative with each of the farmer's local cooperatives being a member of the federated cooperative. Individual farmers are not members of resulting federated cooperatives which is usually a regional. Only cooperatives, not farmers, are members of a federated cooperative. Federated cooperatives may join with other cooperatives, federated, local or centralized, to organize, own another federated cooperative.

In a centralized cooperative, farmers are members of the centralized and are not members or direct owners of the local cooperative that may serve them. As an example, let us use a centralized that serves the geographical area of a state with an outlet in each county of the state. Farmers who own this centralized are members or owners of the statewide or regional centralized cooperative and may be elected to serve as a

director of the centralized but not of the local as the locals are, in fact, branches of the centralized and are owned and controlled by the centralized cooperative.

Among the advantages of the federated type are:

- A greater involvement of farmers in the control and management of the local cooperative that serves them.
- A local cooperative that owns a federated will return to its local farmer-owners the profits from their own cooperative operation plus its share of the federated's earnings.
- Farmers will recognize the need to provide adequate financing and commitment for their cooperative to be successful.
- Farmers elect the directors to manage their local cooperative.
- Directors of their local cooperative live closer to the individual member.

Among the advantages of the centralized type are:

- Locals obtain all supplies and market all products through the centralized thus assuming volume and quality control.
- Management of locals is not under direct pressure of local members.
- Management and marketing decisions can be made quickly.
- Management has more opportunity to advance within the cooperative.
- There is less director and annual meeting expense.
- All members of the centralized share equitably in the patronage refunds of the total cooperative system.
- Prices are essentially the same at all branches.

#### EMERGING COOPERATIVES

A variation that is receiving more attention by governmental agencies

is emerging cooperatives. Emerging cooperatives are defined as a new cooperative that is not affiliated with an existing cooperative. While emerging cooperatives are not exclusively concerned with problems of low income people, a high proportion are. Emerging cooperatives are found in both urban and rural areas. The emerging cooperative in contrast to the new unit of an established cooperative has no organization to look to for support.

The emerging cooperative may have any of the above variations in structure.